

University of Montana

ScholarWorks at University of Montana

Graduate Student Theses, Dissertations, &
Professional Papers

Graduate School

1971

Economic impact of consumer credit counseling as an alternative to personal bankruptcy

Michael Thomas Collins
The University of Montana

Follow this and additional works at: <https://scholarworks.umt.edu/etd>

Let us know how access to this document benefits you.

Recommended Citation

Collins, Michael Thomas, "Economic impact of consumer credit counseling as an alternative to personal bankruptcy" (1971). *Graduate Student Theses, Dissertations, & Professional Papers*. 5937.
<https://scholarworks.umt.edu/etd/5937>

This Thesis is brought to you for free and open access by the Graduate School at ScholarWorks at University of Montana. It has been accepted for inclusion in Graduate Student Theses, Dissertations, & Professional Papers by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.

THE ECONOMIC IMPACT OF CONSUMER CREDIT COUNSELING
AS AN ALTERNATIVE TO PERSONAL BANKRUPTCY

By

Michael T. Collins

B.A., Washington State University, 1970

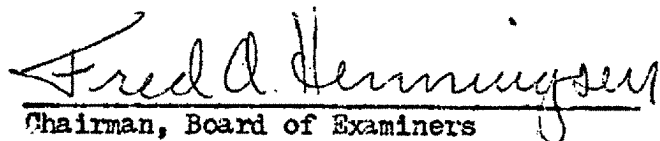
Presented in partial fulfillment of the requirements for the degree of

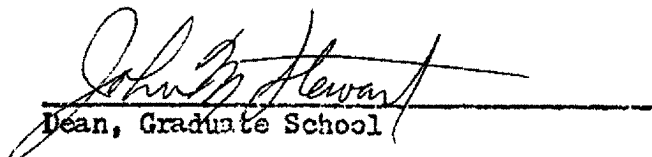
Master of Business Administration

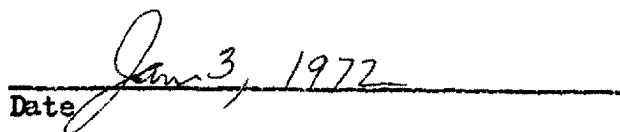
UNIVERSITY OF MONTANA

1971

Approved by:


Chairman, Board of Examiners


Dean, Graduate School


Date

UMI Number: EP36738

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



UMI EP36738

Published by ProQuest LLC (2013). Copyright in the Dissertation held by the Author.

Microform Edition © ProQuest LLC.

All rights reserved. This work is protected against
unauthorized copying under Title 17, United States Code



ProQuest LLC.
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106 - 1346

TABLE OF CONTENTS

LIST OF TABLES	iii
CHAPTER	
I. INTRODUCTION	1
II. BANKRUPTCY AND THE NEED FOR CONSUMER CREDIT COUNSELING	4
III. AN ANALYSIS OF THE ECONOMIC IMPACT OF THE CONSUMER CREDIT COUNSELING SERVICE OF MISSOULA ON THE MISSOULA COMMUNITY (1966-1970)	13
IV. AN ANALYSIS OF THE POTENTIAL IMPACT OF THE CONSUMER CREDIT COUNSELING SERVICE ON MISSOULA'S ECONOMY	24
V. CONCLUSIONS AND RECOMMENDATIONS	39
APPENDIX I	42
APPENDIX II	44
BIBLIOGRAPHY	45

LIST OF TABLES

Table	Page
1. Personal Bankruptcy Cases as a Percentage of the Total Number of Bankruptcy Cases Filed in the United States, July 1, 1960 to June 30, 1969	5
2. Personal Bankruptcies in Missoula County as a Percentage of Personal Bankruptcies for the State as a Whole (1965-1970)	17
3. Personal Bankruptcies Per Thousand Residents in Missoula County (1965-1970)	18
4. Unemployment Benefits in Missoula County (1965-1970) - Comparison with Personal Bankruptcies Filed in Missoula County During That Same Period	19
5. Total Creditors' Claims Allowed on Bankruptcy Petitions Filed in Missoula County (1965-1970)	21
6. Liabilities Claimed by Creditors in the Missoula Bankruptcy Cases Sampled	25
7. Number of Creditors Submitting Claims in the Missoula Bankruptcy Cases Sampled	25
8. Average Monthly Income of the Bankrupts Sampled During the Two Years Immediately Preceding Filing of a Bankruptcy Petition	27
9. Clients of the Consumer Credit Counseling Service of Missoula - Amount of Debt in Cases Sampled	28
10. Number of Creditors to Whom the Sample of Clients of the Missoula Consumer Credit Counseling Were Indebted	29
11. Average Monthly Income of the Clients Sampled at the Time They Initiated a Repayment Program Through the Counseling Service	30
12. Monthly Contribution to Creditors by Clients of the Missoula CCCS as a Percentage of Monthly Net Income	32

LIST OF TABLES--Continued

Table	Page
13. The Percentage of Income Disbursed Monthly - (A Comparison of the Upper and Lower Halves of the Counseling Service Cases Sampled, Ordered According to the Size of the Client's Income).	33
14. Number of Months Required to Repay the Total Debt of Each of the Missoula Bankrupts Sampled if a Specified Percentage of Their Average Monthly Income Is Applied to Such Repayment	36

CHAPTER I

INTRODUCTION

In recent years the productive capacity of the various sectors of our national economy has increased rapidly. To facilitate the distribution of the growing number of goods and services, the use of consumer credit has been greatly expanded and the pressure to buy is everpresent. For many the result has been indiscriminate behavior in the marketplace causing a variety of debt-related problems. A sharp increase in personal insolvencies has accompanied the unequalled prosperity of the Sixties.

What mechanism does our society provide for the relief of the debt-ridden individual who must bear a heavy burden as a result of his over-indebtedness? Historically, this problem has been most frequently dealt with through bankruptcy, a legal mechanism whereby an individual may be discharged from all or most of his debt obligations. Concern has grown over the enormous cost of these bankruptcies, not only for the nation's credit grantors, but for the nation's credit users and taxpayers as well. The problems involved are exceedingly complex and a simple solution is unlikely.

Bankruptcy is only a relatively small part of the total problem of credit and personal financial difficulties. But it is perhaps the most disturbing and also the most visible aspect of the problem. As such, it has been the subject of a considerable amount of research. This research has been interdisciplinary with major contributions being offered by

economists and socio-psychologists, as well as lawyers and businessmen. The research, however, has not been extensive due to the relatively contemporary nature of the problem, at least at its present magnitude. Some studies have been made in a number of geographical regions including Salt Lake City, Utah; Seattle, Washington; Sacramento, California; and Flint, Michigan. Most of this research has been concerned with answering some basic questions regarding the characteristics of personal bankrupts. Who are they? Why have they retreated into bankruptcy as a solution to their debt problems? These studies have produced some important insights into the problem of personal bankruptcy, and a number of alternatives and possible solutions have been set forth.

Throughout much of this research questions have been raised as to the adequacy of the bankruptcy mechanism as a means for dealing with the problems associated with personal over-indebtedness in our rapidly expanding, credit-oriented economy. One of the recommendations to come out of many of these studies has been the increased use of consumer credit counseling as an alternative means of lessening or alleviating the burden falling upon a debt-ridden individual. However, little if any of the research undertaken to date has dealt specifically with a single, operating credit counseling service in an attempt to evaluate its impact on the community it serves. This is the topic to be considered in the study at hand. The basic premise involved is that the bankruptcy system as it operates today does indeed fall far short of dealing effectively with the problem of personal over-indebtedness, and that consumer credit counseling is in many cases a more desirable alternative which can offer greater and more lasting benefits to the parties involved and to society as a whole.

The scope of this study was confined to an analysis of the economic impact of a community credit counseling service as distinguished from any social or other non-economic impact that such a service might have on the community in which it operates. The Consumer Credit Counseling Service of Missoula, Montana was the counseling service whose operations were specifically evaluated.

The objectives of the study were 1) to describe the need for consumer credit counseling as an available alternative to personal bankruptcy; 2) to analyze the development and operation of the Missoula credit counseling service, with primary emphasis on the economic impact of this service on the Missoula community since its creation in 1966 in terms of both the funds it has generated for creditors in the community and its role in reducing losses to creditors due to personal bankruptcies; 3) to analyze the potential economic impact that may exist for the counseling service as compared to its actual impact since 1966; and 4) to formulate conclusions and recommendations based on the results of this case study.

This study was undertaken recognizing the fact that there are a number of time-related constraints imposed upon the project that necessarily limit its scope. An exhaustive examination of all available sources of information, both primary and secondary, was not possible. But it is believed that the study was sufficiently ambitious to enable the objectives set forth above to be fulfilled.

CHAPTER II

BANKRUPTCY AND THE NEED FOR CONSUMER

CREDIT COUNSELING

A bankruptcy mechanism has been operating in this country since the Bankruptcy Act of 1898. This piece of legislation has evolved somewhat since its enactment, but it remains basically intact. At the time it was written the Bankruptcy Act was intended to deal primarily with business failures, although it applied to individuals as well. It provides for a process whereby a debtor may petition for the discharge of his debts. His assets are collected by the court and sold for cash (with the exception of certain assets which are exempted by the state in which he resides). Funds generated in this manner are then distributed among his creditors on a ratable basis and the debtor is discharged from whatever debts are not satisfied.¹ Bankruptcy must thus be distinguished from insolvency. Insolvency refers to the financial condition which exists when a debtor's assets are not capable of satisfying all of his debt obligations. Bankruptcy on the other hand, is a legal designation. A debtor is adjudged a bankrupt by a federal court.

When the Bankruptcy Act was enacted in 1898 personal bankruptcies were relatively uncommon, especially when compared to the number of business filings. In recent years the trend has been quite different. Not only has the number of personal bankruptcies increased sharply,

¹Duane G. Harris, "Prosperity and Personal Bankruptcy," Federal Reserve Bank of Philadelphia: Business Review, (August, 1971), p. 3.

but the over-whelming majority of total bankruptcy cases are now classified as being non-business or personal. Also, there has been some increase in personal bankruptcies as a percentage of the total. This is confirmed by the figures set forth in Table 1 below. From 1960 to 1967

TABLE 1

PERSONAL BANKRUPTCY CASES AS A PERCENTAGE OF THE
TOTAL NUMBER OF BANKRUPTCY CASES FILED
IN THE UNITED STATES JULY 1, 1960
TO JUNE 30, 1969

Fiscal Year	Total Cases Filed	Non-Business Filings	Non-Business Filings as a % of the Total
1960	110,134	97,750	89
1961	146,643	131,402	90
1962	147,780	132,125	90
1963	155,493	139,190	90
1964	171,719	155,209	90
1965	180,323	163,413	91
1966	192,354	175,924	92
1967	208,329	191,729	92
1968	197,811	181,266	92
1969	184,930	169,600	92

Source: Administrative Office of the United States Courts, Tables of Bankruptcy Statistics.

the number of personal bankruptcy cases filed annually nearly doubled. During these same years personal bankruptcies grew from 89% to 92% of the total. Since 1967 there has been a slow, but steady decrease in the number of personal bankruptcies filed each year and personal bankruptcies as a percentage of the total appear to have levelled off. However, the average number of personal bankruptcy cases filed each year during the last half of the decade was 176,386, well above the 131,135 average for the first half of the decade.

What does this increasing number of personal bankruptcies mean? It could mean one of two things. Either more people are becoming insolvent, or more of those who become insolvent are choosing bankruptcy as a solution to their problems. Likely it is a combination of both. But regardless, the increasing number of personal bankruptcies would suggest that an already large group of overextended debtors is growing steadily. Most of these individuals appear to lack the knowledge and (or) self-discipline to manage their financial affairs wisely, and as a result have created serious problems for themselves and their creditors.² But the causes of personal bankruptcy are many and diverse. An examination of these causal factors is beyond the scope of this paper and will be pursued no further.

The cost of personal bankruptcy is disturbing. An estimated one billion dollars per year is "washed down the drain" as a result of non-business bankruptcies.³ This reflects the fact that most creditors realize little if anything from personal bankruptcy proceedings. But the costs of bankruptcy are not borne solely by the nation's credit grantors. The bankrupt himself must deal with whatever cost might be attached to the stigma of having been adjudged a bankrupt. Also, there are costs falling upon both the consumer and the taxpayer. Much of the cost of losses due to bad debts is passed along by business in the form of higher prices and interest charges. In addition, taxes pay for a portion of what the bankruptcy process actually costs to operate.

²Ibid., p. 6.

³George Sullivan, The Boom in Going Bust (New York: The Macmillan Company, 1968) p. 172.

Why do we even have a bankruptcy system, especially in view of the tremendous costs associated with it? Richard Matsch offers the following explanation in a critique on bankruptcy.

It is designed to be a kind of safety valve for the pressures generated by the conflicts which develop where the exchange of goods and services takes place through multiple extensions of credit from a number of unconnected sources.⁴

Here he is referring to two different types of pressure: the pressure on a debtor caused by the collection efforts of his creditors and the pressure created among those who have extended credit to a common debtor who is not capable of satisfying his debt obligations. In attempting to minimize these pressures, the bankruptcy mechanism must have a two-fold purpose. It must offer relief to the debtor while at the same time providing for creditor satisfaction. As it now operates bankruptcy normally relieves the debtor of his obligations by discharging his debts, but may provide little if anything in the way of creditor satisfaction. In bankruptcy, the liquidation of the petitioner's assets is often the sole source of satisfaction for his creditors. They may well find, however, that the only asset the petitioner possesses is his earning capacity, which is frequently made inaccessible to them. In such cases bankruptcy is inadequate in fulfilling the two-fold purpose just set forth and is likely to be ineffective in dealing fairly with both debtor and creditor.⁵

Chapter XIII of the Bankruptcy Act does give a debtor the option of repaying his creditors through a repayment plan administered by the court. But for a number of reasons its use has been neither consistent nor widespread. The court itself has no power to require or even

⁴Richard P. Matsch, "Bankruptcy: A Study in Functional Obsolescence," Credit and Financial Management, April, 1970, p. 16.

⁵Ibid.

encourage its use. The attitudes of the legal community and the creditors involved regarding Chapter XIII do have some effect on the extent to which it is used. But the choice of whether to attempt to repay one's debts through Chapter XIII or whether to seek a discharge from them through straight bankruptcy still rests largely with the debtor. Also, questions are frequently raised as to whether it is properly the function of the judiciary to plan and administer the repayment of an individual's debts. Finally, because an individual is associated with the Bankruptcy Act in pursuing the repayment of his debts through Chapter XIII, he may still find that he must deal with the stigma of bankruptcy, although he is technically not a bankrupt.

For the debtor the bankruptcy process is neither preventative nor rehabilitative with regard to his debt problems. Bankruptcy itself offers little opportunity for the debtor to obtain professional counseling. When an individual finds himself in financial trouble he is usually hesitant to seek out his creditors for help and turns instead to a friend, relative, or some other party who may well have little training in personal money management. Bankruptcy does not fill this gap. A petitioner in bankruptcy may be counseled briefly by a lawyer in filling out the petition and other paperwork, but at this point it is often too late. It is estimated that for every family experiencing bankruptcy, 20 or more are experiencing financial problems and could benefit greatly from professional counseling.⁶ And in addition, many of the bankruptcies actually filed have been found to be unnecessary. In other words, many of the debtors choosing to file bankruptcy could have repaid

⁶Family Services Association of America, Family Credit Counseling - An Emerging Community Service, Summary Report (New York, 1970), p. 9.

their creditors had they so desired and been so advised. This will be discussed in some detail later. Bankruptcy also does little in terms of rehabilitating the debtor once a discharge is granted. Again no provision for counseling has been made. It is unlikely that an experience with bankruptcy will impart a better understanding of money management to the bankrupt. Even when a Chapter XIII plan is undertaken, the debtor attempting to repay his debts in this way may find that it is little more than an exercise in negotiation and the routine disbursement of funds. As a result of the absence of rehabilitative efforts, many bankrupts are repeaters.

The bankruptcy process, therefore, despite its increased use and tremendous cost, does not appear to be an effective solution to the problems associated with personal over-indebtedness. It does not supply sound financial counseling to debtors aimed at reducing the actual number of bankruptcies, it fails to provide for the rehabilitation of those individuals who are adjudged bankrupts, and it most often falls far short of satisfying the debt claims of the creditors involved. It is doubtful that the need for bankruptcy will ever totally disappear as a means of dealing with acute financial difficulties. There will always be those who for one reason or another become so hopelessly indebted that the discharge of their debts is the only possibility for relief. But for those whose debt problems are less severe, the need exists for other alternatives which can be of greater benefit to the debtor, while at the same time reducing the losses to creditors and other costs of bankruptcy. Consumer credit counseling on a community service basis is such an alternative.

The consumer credit counseling service is a relatively new phenomenon. The need for this service has become increasingly apparent during

the past decade. In response to this need, counseling services have been started in communities across the country. Currently, there are more than 50 in operation throughout the United States and Canada and many more are in the planning stage.⁷ The majority of these are located in the larger metropolitan areas. It is important here to distinguish between a consumer credit counseling service and a commercial debt adjuster or "pro-rater". The latter usually charges the debtor a high percentage of the outstanding debt for his services. The exact procedures vary from one to another, but in many cases the debtor is victimized. The quality of the counseling provided often fails to justify its high cost. The result has been that credit counseling for a fee has been prohibited in many states. The services of a consumer credit counseling service, on the other hand, are normally made available at no cost to the debtor. Sometimes a nominal fee is charged to help defray operating expenses.

The typical consumer credit counseling service does not function as a charity organization. Nor is it a lending institution or a collection agency. It is rather a non-profit community service, ordinarily financed through contributions from the business community. A credit counseling service has two primary objectives: 1) to assist debt-ridden families, and 2) to prevent credit mismanagement through education.⁸ For most counseling services, efforts in the area of consumer education have had to be postponed because of personnel shortages and lack of funds. Operations have focused rather on the first of these objectives: helping families with serious existing debt problems.

⁷Ibid.

⁸Stephen P. Coha, "Consumer Counseling," Bankers Monthly, (January 15, 1967), p. 38.

A consumer credit counseling service can provide a number of services to the individual plagued by financial troubles ranging from advice on personal money management to actually designing a repayment plan to enable the debtor to liquidate his debts. If the debtor has some margin of income above that necessary to maintain an adequate standard of living, the counselor can normally design a payment schedule tailored to his individual needs and capacity. The repayment plan will likely require creditor approval so that payments may be extended and carrying charges can be dropped. But creditors are usually cooperative, not only because of humanitarian and public relations considerations, but because they would prefer to see a debtor placed on an adjusted payment plan than risk losing the entire account through bankruptcy.

The benefits of consumer credit counseling are both numerous and substantial. The debtor benefits in several ways. He is able to overcome his debt problems without retreating into bankruptcy and satisfies the obligations to his creditors in the process. Also, as long as his repayment plan operates he is not subject to legal action involving his debts or the garnishment of his wages. He is in effect sheltered from the collection activities of his creditors. In addition, he stands to benefit greatly from the rehabilitative counseling of the counseling service. He is likely to emerge from the repayment program with greater confidence and self-reliance and with new and healthier ideas regarding family money management. The creditor, of course, receives regular payments on an account which might otherwise be worthless. The debtor's employer is spared the expense and bother of garnishment procedures and may also accrue benefits in the form of decreases in absenteeism, reduced accident rates, and increased productivity. Finally, the entire

community benefits from a service which helps people help themselves with their debt problems. The economic fabric of the community is strengthened by the efforts of a credit counseling service in discouraging the use of bankruptcy, providing programs for the repayment of endangered accounts, and enabling a participant in its programs to become a more stable economic unit within the community. Similarly, a community's social fabric is strengthened by its efforts to assist a debtor in safeguarding his job and in maintaining his family's stability and well-being.

In summary, there has been a noteworthy increase in the number of personal bankruptcies in recent years. These bankruptcies are extremely costly. Yet the bankruptcy mechanism falls short of dealing effectively with the problem of personal over-indebtedness. A discharge through bankruptcy may well be the only alternative available for the debtor whose financial condition is completely hopeless. But for those debtors whose financial problems are less acute the repayment program of a credit counseling service can be of much greater and more lasting benefit. At the same time losses to creditors and the other costs of bankruptcy can be reduced.

Even in considering only the economic aspects of consumer credit counseling, the potential impact of a counseling service on the community in which it operates would appear great. But is it? The remainder of this study is an attempt to answer this question based on a case study of the Consumer Credit Counseling Service of Missoula.

CHAPTER III

AN ANALYSIS OF THE ECONOMIC IMPACT OF THE CONSUMER
CREDIT COUNSELING SERVICE OF MISSOULA ON THE
MISSOULA COMMUNITY 1966-1970

In 1966, a group of Missoula business leaders concerned with personal debt problems and alarmed by the number of bankruptcies in the Missoula area established the Consumer Credit Counseling Service of Missoula. A board of directors and advisory board were selected from interested and capable people in the community. The counseling service was incorporated as a private non-profit corporation in 1967. Initial financing was obtained through a loan from the Missoula Chamber of Commerce. The operations of the counseling service have since been financed through contributions in the form of memberships purchased by area professionals and businessmen.⁹

As set forth in its brochure, the procedures utilized by the Missoula credit counseling service in implementing its programs are relatively straight-forward. A client first completes a form showing his current financial condition. On the basis of what this statement reveals about his financial status, the counselor may advise him in a number of ways. The client may require only brief counseling on a particular budget problem or a decision involving credit. On the other

⁹Earl Slack (counselor), interview held at the office of the Consumer Credit Counseling Service of Missoula, Missoula, Montana, October, 1971.

hand, the individual may be so hopelessly in debt that the counselor must regretfully inform him that the service can be of no direct benefit to him other than possibly recommending bankruptcy as his only alternative. For those, however, who have debt problems but whose financial condition is not so severe, the counselor may recommend that the individual undertake a repayment program with the help and guidance of the counseling service. In this case the counselor will prepare a payment schedule, taking into account the client's income, necessary expenses, and debt structure. The client then seeks out his creditors for their approval. After all of his creditors agree to the program a trust checking account is set-up for the client and arrangements are made for the handling of the monthly payments. The client ordinarily visits the office each month. He personally makes out the checks due each of his creditors. The counselor counter-signs the checks and they are mailed out to the client's creditors. During the counseling period the client learns to handle his own affairs, live within a budget, and at the same time is able to make steady monthly contributions toward the liquidation of his debt.

An analysis of the economic impact of these programs on the Missoula community since 1966 can be approached in two ways. The first is to examine the disbursement of funds by clients of the counseling service to their creditors. The second is to evaluate the influence of this service on the frequency with which bankruptcy is filed in Missoula County and on the amount of debt these bankruptcies represent. These are essentially two ways of looking at the same question, but an examination of both should enhance the validity of whatever judgements are made on the basis of this analysis.

An attempt to analyze the disbursement of funds by clients of the credit counseling service is hindered somewhat by the unavailability of some information and a general lack of uniformity in the information which is available. The record-keeping procedures of the service have changed as the informational needs of those overseeing its operation have evolved. Also, there has been a recent change in counselors. The present counselor has updated and revised some of the existing procedures. As a result, many of the records lack uniformity. But despite these hindrances enough can be gleaned from the records of the counseling service to show the magnitude of the returns it has generated for creditors in the Missoula area.

Over a half-million dollars has been paid to creditors by clients of the counseling service since its operations began late in 1966. During the first 18 months of operation, an average of \$4,744 was repaid each month. By 1970, this monthly average had increased to nearly \$12,000 with \$143,229 being paid to creditors during the year. But these figures represent only the amount repaid by clients actually participating in a repayment program supervised by the counseling service. Each year many programs are terminated. The dollar value of these programs is substantial. For example, in 1970 the outstanding debt associated with terminations totalled \$94,075. Some of these terminated programs are failures in the sense that the client has chosen for one reason or another to discontinue his payments. In other cases the client has merely assumed the responsibility of the payments himself. He continues to make regular payments to his creditors but without the supervision of the counseling service. In addition, the counseling service may well have stimulated payments to creditors by individuals who have come to

the service for advice and consultation but have never actually been placed on a repayment program. So the amounts stated on the previous page may well be rather conservative as an estimate of the total debt repaid as a result of the services provided by the counseling service. But whether or not the question of conservatism is considered, it is quite apparent that from the standpoint of money paid to creditors which might otherwise be lost, the credit counseling service has had a significant impact on the Missoula community.

Before attempting to evaluate the impact of the counseling service on bankruptcy in Missoula County, some preliminary remarks must be made concerning the procedures employed. Data regarding personal bankruptcy are assembled and published by the Administrative Office of the United States Court, but only on a state basis. To obtain the needed data for Missoula County, a case-by-case search of the federal court docket in Butte, Montana was necessary. Business bankruptcies were of course eliminated. But in addition, those cases in which the petitioner indicated that he was filing personal bankruptcy as a result of a business failure were excluded. This was done in an attempt to make the data more relevant for the purposes of this study, since the credit counseling service is normally not involved with problems of this type.

The number of personal bankruptcies (as defined in the preceding paragraph) filed each year in Missoula County from 1965 through 1970 is presented in the first column of Table 2 on the following page. With the exception of 1968, the number of bankruptcies filed each year has decreased steadily since 1965. In order to judge the significance of this trend, it is appropriate to relate the number of bankruptcies filed annually in the county to some other variables. Table 2 relates the number of bankruptcies

TABLE 2

PERSONAL BANKRUPTCIES IN MISSOULA COUNTY AS
A PERCENTAGE OF PERSONAL BANKRUPTCIES FOR
THE STATE AS A WHOLE (1965-1970)

Year	Personal Bankruptcies		(a) As a Percentage of (b)
	In Missoula County (a)	In the State of Montana ^a (b)	
1965	86	572	15.0
1966	83	612	13.6
1967	77	659	11.7
1968	86	697	12.3
1969	76	952	8.0
1970	66	Not Available	—

^aSource: Administrative Office of the United States Courts, Tables of Bankruptcies Statistics.

filed in the county to the number filed each year in the state as a whole. The county figure is expressed as a percentage of the state figure. This percentage shows a downward trend which is similar but more dramatic than the trend in the number of bankruptcies filed in the county. The number of bankruptcies in the state as a whole has increased each year since 1965. Unfortunately, this figure is not available for 1970. But the fact that the number of bankruptcies filed in the state has shown a steady increase, along with the fact that the number of bankruptcies filed in the county dropped from 76 in 1969 to 66 in 1970, would indicate a strong probability that the percentage figure for 1970 may be considerably less than the 8.0 percent for 1969.

In Table 3 below, the number of personal bankruptcies filed in

TABLE 3

PERSONAL BANKRUPTCIES PER THOUSAND RESIDENTS
IN MISSOULA COUNTY (1965-1970)

Year	Personal Bankruptcies In Missoula County	Population In Missoula County	Bankruptcies Per Thousand Residents
1965	86	47,300 ^a	1.82
1966	83	52,300 ^a	1.59
1967	77	52,900 ^a	1.46
1968	86	55,100 ^a	1.56
1969	76	55,800 ^b	1.36
1970	66	58,263 ^c	1.13

^aSource: Montana State Board of Health, Annual Statistical Supplement.

^bSource: Bureau of Business and Economic Research, University of Montana, citing U.S. Department of Commerce, Bureau of the Census, (unpublished data, September 30, 1971).

^cSource: U.S. Department of Commerce, Bureau of the Census, 1970 Census of the Population, Montana, Advance Report.

Missoula County is related to population changes in the county. The best available estimates show that the county's population has increased each year since 1965. This means that taking population into account makes the trend in the number of personal bankruptcies appear to be decreasing at an even more rapid rate. Bankruptcies per thousand residents have decreased at a faster rate than the actual number of bankruptcies.

Unemployment is often cited as having weighty influence on bankruptcy rates. Table 4 examines the relationship between bankruptcy and

TABLE 4

UNEMPLOYMENT BENEFITS PAID IN MISSOULA COUNTY
(1965-1970) - COMPARISON WITH PERSONAL
BANKRUPTCIES FILED IN MISSOULA COUNTY
DURING THE SAME PERIOD

Year	Personal Bankruptcies In Missoula County	Unemployment Benefits Paid In Missoula County ^a
1965	86	\$473,412
1966	83	328,154
1967	77	427,035
1968	86	356,594
1969	76	370,334
1970	66	642,873

^aSource: Employment Security Commission of Montana, Montana Labor Market, (1965-1970).

unemployment benefits paid to individuals in Missoula County. The use of unemployment benefits paid as an indicator of changes in unemployment has some definite shortcomings. Certain important industries such as agriculture, the railroads, and government are excluded. Also, some distortion may result from the fact that changes in the amount of benefits

paid each year do not take into account either population changes or changes in the level of benefits and may not, therefore, necessarily reflect equal changes in the actual rate of unemployment. But although these shortcomings exist, changes in the amount of unemployment benefits paid should provide some indication of whether or not any significant changes have occurred in the rate of unemployment in the county during the six-year period being considered. The figures set forth in Table 4 show no clear pattern in relating changes in benefits paid to the trend in personal bankruptcies. However, it is interesting to note that in 1968, the only year in which the number of bankruptcies rose, the amount of unemployment benefits paid was relatively low. Also, in 1970 when the number of bankruptcies was at a low for the six years, the amount of benefits paid was at a high. In addition, the amount of benefits paid has increased steadily since 1968, while the number of bankruptcies filed has steadily decreased. But perhaps the most significant aspect of these figures is that they fail to indicate that the recent decrease in the number of personal bankruptcies has been accompanied by any large reduction in the unemployment rate in the county.

It is clear that the number of personal bankruptcies filed annually in Missoula County has decreased rather steadily since 1965. This decrease has not been due to a reduction in the population of the county. On the contrary, the county's population has increased each year since 1965. Nor does the decrease in the number of bankruptcies appear to be the result of a reduction in unemployment in the county. Can this downward trend in bankruptcy be solely attributed, therefore, to the impact of the Missoula credit counseling service? It probably would be imprudent to make such an argument. The impact of the counseling service cannot be

isolated, and a number of other factors may be contributing to this trend. Among the possibilities are changes in the attitudes of lawyers in the community regarding bankruptcy, the increased availability of credit counseling from other sources, and changes in the collection practices of area creditors. But the credit counseling service has undoubtedly been a factor, and in view of the amount of money returned to creditors as a result of its programs, it may well be the major factor underlying this trend.

A reduction in bankruptcies has meant a savings to creditors in Missoula County in the form of smaller losses due to uncollectable accounts. Table 5 displays the total amount of creditors' claims in

TABLE 5
TOTAL CREDITORS' CLAIMS ALLOWED ON BANKRUPTCY
PETITIONS FILED IN MISSOULA COUNTY
(1965-1970)

Year	Personal Bankruptcies In Missoula County	Total Claims Of Creditors In Missoula County ^a
1965	86	\$513,053.38
1966	83	429,969.57
1967	77	462,803.43
1968	86	507,682.00
1969	76	427,096.62
1970	66	418,619.20

^aThese figures were derived from the same case-by-case search of court records which yielded the data on the number of bankruptcies in the county.

personal bankruptcy proceedings during each year from 1965 through 1970. The total amount of debt claimed by creditors in each of these years follows a trend similar to that for the number of personal bankruptcies.

In 1968 the amount claimed by creditors increased over the amount claimed during each of the two previous years. But since 1968 the amount claimed has decreased each year. In 1970 creditors claimed \$89,062.80 less in credit extended to individuals petitioning for bankruptcy than they did in 1968 and \$94,434.18 less than they did in 1965. Of course, creditors may not lose one hundred percent of what is owed them by bankruptcy petitioners, but the percentage is high. Cases in which the petitioner has assets whose value is greater than the amount required to pay for legal fees and the administrative charges of the court are relatively rare. In a sample of bankrupts who had petitioned for bankruptcy in Missoula County during the years 1968 through 1970 (to be discussed specifically in the next chapter), not a penny of the debt owed by the bankrupts was ever disbursed to their creditors. A reduction in the amount of debt owed by bankrupts in the county is likely, therefore, to result in a savings to creditors of almost equal magnitude. Thus, the figures presented in Table 5 would seem to indicate that while there is no steady trend, the losses of Missoula creditors each year due to bankruptcy have been considerably reduced since 1965.

This chapter has attempted to analyze the economic impact of the Missoula credit counseling service since its operations began in 1966. The analysis has been approached in two ways, the first dealing with funds disbursed by clients of the service to their creditors, and the second with changes in the number of bankruptcies filed each year in the county and in the amount of debt claimed by creditors in these cases. The findings of both approaches reinforce each other as anticipated. On the one hand, Missoula creditors have received over a half-million dollars from individuals attempting to liquidate their debts through programs

provided by the counseling service. And it has been suggested that this figure may be rather conservative as an estimate of the total impact of the service in this regard. On the other hand, there are strong indications that the programs of the counseling service have been the major factor underlying the downward trend in the number of personal bankruptcies filed each year in the county, which in turn has meant substantial savings to creditors. Taken together, these findings can only support a conclusion that the consumer credit counseling service has indeed had an important impact on Missoula's economy.

CHAPTER IV

AN ANALYSIS OF THE POTENTIAL IMPACT OF THE CONSUMER
CREDIT COUNSELING SERVICE ON MISSOULA'S ECONOMY

The analysis in the preceding chapter leads to a conclusion that the Missoula credit counseling service has had an important impact on the area's economy. A worthwhile extension of that analysis is to attempt to evaluate the potential economic impact of the service and contrast this potential to the actual impact of its past operations. To evaluate this potential it is necessary to investigate both the debt structure and repayment capacity of Missoula bankrupts as compared to that of the clients of the counseling service.

A random sample was taken of the bankruptcy cases filed in Missoula County between 1968 and 1970.¹⁰ This sample, which was 25% of the cases, revealed quite a range in the total amount of liabilities claimed by creditors in each case, from \$1,186 to \$19,115. However, in most cases the petitioner's total debt was between \$2,000 and \$6,000. The mean for the sample was \$6,786. The median was \$5,470. A percentage breakdown of the amount of liabilities claimed by creditors in the cases sampled is presented in Table 6 which appears on the following page.

In examining an individual's debt burden it is relevant to consider not only the amount of debt he owes, but the number of creditors to whom he is obligated as well. In the cases sampled, the petitioners had

¹⁰ Refer to Appendix I, p. 42.

TABLE 6

LIABILITIES CLAIMED BY CREDITORS IN THE MISSOURIA
BANKRUPTCY CASES SAMPLED

Total Liabilities	Number Of Cases In Each Category	Percentage In Each Category
\$ 0 - 1,999	1	1.6
2,000 - 3,999	15	24.6
4,000 - 5,999	20	32.8
6,000 - 7,999	8	13.1
8,000 - 9,999	3	4.9
10,000 and over	14	23.0
Total	<u>61</u>	<u>100.0</u>

from 6 to 66 creditors, with a mean number of 25 and a median of 22.

Table 7 shows the percentage breakdown for the sample with regard to the

TABLE 7

NUMBER OF CREDITORS SUBMITTING CLAIMS IN THE
MISSOURIA BANKRUPTCY CASES SAMPLED

Number Of Creditors	Number Of Cases In Each Category	Percentage In Each Category
0 - 9	3	4.9
10 - 19	21	34.4
20 - 29	21	34.4
30 - 39	6	9.8
40 - 49	7	11.5
50 and over	3	4.9
Total	<u>61</u>	<u>99.9^a</u>

^a Error due to rounding.

number of creditors each petitioner had at the time he filed for bankruptcy.

Before considering how much income the bankruptcy petitioners in the sample had from which they could attempt to repay their debts, some explanation regarding the income data is necessary. On the forms which a petitioner must complete in filing for bankruptcy, he is required to state the income he received during the two years previous to the filing of his petition. But there are a number of factors which detract from the credibility of these figures. First of all, it is not specified on the form whether or not the amount stated is to represent the petitioner's gross or net income. In the cases sampled, some of the figures are rounded to the nearest hundred dollars, while others are expressed to the penny. This would seem to indicate that some of the petitioners stated a gross figure and some stated a net figure. Secondly, there may be some inducement for the petitioner to understate his income. He may purposely seek to make his situation look as desperate as possible in the hope that the court will grant him a discharge. And thirdly, the amounts disclosed on the forms may bear no relationship to the petitioner's income at any point in time after he has filed his petition. He may soon after be fired, receive a cut in pay, or even receive a raise in pay. But despite the fact that these stated amounts may not be completely credible, they represent the best available estimate of a bankrupt's income. They are suitable for the purpose of this study but their limitations must be recognized.

As stated by the petitioners in the cases sampled, average monthly incomes during the two years preceding the filing of a bankruptcy petition ranged from \$83 to \$833. The mean income was \$374 and the median was \$354.

A breakdown of the incomes of the sixty-one petitioners in the sample is provided in Table 8 below.

TABLE 8

AVERAGE MONTHLY INCOME OF THE BANKRUPTS SAMPLED
DURING THE TWO YEARS IMMEDIATELY PRECEDING
FILING OF A BANKRUPTCY PETITION

Average Monthly Income	Number Of Cases In Each Category	Percentage In Each Category
\$ 0 - 199	9	14.8
200 - 399	26	42.6
400 - 599	18	29.5
600 - 799	5	8.2
800 - 999	3	4.9
1000 and over	0	0.0
Total	<u>61</u>	<u>100.0</u>

In order to obtain comparable data for the clients of the Missoula credit counseling service, a judgement sample was taken from their program files.¹¹ The sample shows that on the average the clients of the counseling service had debt problems which were less severe than those of the bankrupts sampled. They had both smaller debts and fewer creditors. There was a much greater percentage of the counseling service's clients who had debts of less than \$6,000 than was true for the bankrupts who were sampled. Also, there was a considerably smaller percentage of the clients who had debts totaling \$10,000 or more. Their mean debt was \$4,237. The median was \$3,653. These compare respectively to the \$6,786 and \$5,470 figures set forth above for the bankrupts. Table 9 shows the

¹¹ Refer to Appendix II, p. 44.

percentages of the clients sampled that fall into each of the various debt categories. For ease of comparison, the respective percentages for the sample of bankrupts are also shown.

TABLE 9

CLIENTS OF THE CONSUMER CREDIT COUNSELING
SERVICE OF MISSOULA - AMOUNT OF DEBT
IN CASES SAMPLED

Total Liabilities	Number Of Cases In Each Category	Percentage Of Cases In Each Category	% Of Missoula Bankrupts In Each Debt Category
\$ 0 - 1,999	16	16.8	1.6
2,000 - 3,999	39	41.1	24.6
4,000 - 5,999	22	23.2	32.8
6,000 - 7,999	10	10.1	13.1
8,000 - 9,999	6	6.3	4.9
10,000 and over	2	2.2	23.0
Total	95	99.7 ^a	100.0

^aError due to rounding.

The average client of the counseling service also had considerably fewer creditors as compared to the average from the sample of bankrupts. Their mean number of creditors was 14. The median was 13. The sample of bankrupts, on the other hand, had a mean of 25 and a median of 22. Table 10 on the following page breaks down the sample of clients according to the number of creditors each had. Again, the respective figures derived from the sample of bankrupts are also shown.

In addition to having smaller debts on the average and fewer creditors, the clients of the counseling service also had average monthly incomes which were considerably larger than those of the bankrupts,

TABLE 10

NUMBER OF CREDITORS TO WHOM CLIENTS OF THE MISSOULA
CONSUMER CREDIT COUNSELING SERVICE ARE INDEBTED

Number Of Creditors	Number Of Cases In Each Category	Percentage Of Cases In Each Category	% Of Missoula Bankrupts In Each Category
0 - 9	22	23.2	4.9
10 - 19	57	60.0	34.4
20 - 29	16	16.8	34.4
30 - 39	0	0.0	9.8
40 - 49	0	0.0	11.5
50 and over	0	0.0	4.9
Total	95	100.0 ^a	99.9 ^a

^aError due to rounding.

according to the results of the two samples. The mean and median incomes for the clients sampled were \$476 and \$450 respectively, as compared to \$374 and \$354 for the sample of bankrupts. As with the bankrupts, the clients of the counseling service may have been motivated to understate their incomes. By doing so a client might succeed in maintaining some discretionary income should the counselor place him on a tightly budgeted repayment program. The forms that the counselor completes for each of the service's clients specify that the income recorded is to be a net figure. But on some of the bankruptcy petitions, as noted above, some of the petitioners stated a gross figure. So there is not perfect comparability between the two sets of data. However, in view of the size of the incomes involved, any distortion caused by the differences between gross and net income in some of the cases sampled should not be enough to invalidate the results of the analysis. Table 11 on the following page

displays the number and percentage of clients who fall into the established income categories. Also shown are the percentage figures from the sample of bankrupts. About the same percentage of cases in each sample had incomes of less than \$600. But a much larger percentage of the bankrupts fall in the under \$400 category.

TABLE 11
AVERAGE MONTHLY INCOME OF THE CLIENTS SAMPLED AT THE
TIME THEY INITIATED A REPAYMENT PROGRAM
THROUGH THE COUNSELING SERVICE

Average Monthly Income	Number Of Cases In Each Category	Percentage Of Cases In Each Category	% Of Missoula Bankrupts Sampled In Each Category
\$ 0 - 199	1	1.1	14.8
200 - 399	23	24.2	42.6
400 - 599	54	56.8	29.5
600 - 799	14	14.7	8.2
800 - 999	2	2.1	4.9
1000 and over	1	1.1	0.0
Total	95	100.0	100.0

The information drawn from these samples is not startling. The bankrupts sampled could be expected to have more serious debt problems and smaller incomes than the clients of the credit counseling service. The counseling service can be of no direct assistance to severely indebted individuals or debtors who have no margin of income over and above necessary expenses with which they could attempt to repay their creditors. And the sample taken from the case files of the counseling service included only those individuals who had actually been placed on repayment programs. Also, studies have shown that during the months

immediately preceding the filing of bankruptcy an individual not only continues to accumulate debt but accumulates it at an increasingly faster rate. This indicates that many people on the road to bankruptcy fail to recognize warnings of impending financial disaster or to heed these warnings if they are recognized.¹² The clients of the counseling service, on the other hand, are prohibited from accumulating additional debt once they have been placed on a repayment program. So it is not surprising that on the average the bankrupts were more heavily indebted than the participants in these programs.

However, if the bankruptcy cases sampled are not averaged, but rather considered separately in terms of the amount of debt involved in each case as it relates to the petitioner's income at the time the petition was filed, how many of these individuals actually had the capacity to repay their creditors? To answer this question an examination of the repayment schedules designed for the clients of the counseling service sampled is required. Both the percentage of income contributed towards the repayment of creditors each month and the number of months over which the repayment program is to operate can be derived from these schedules. This information can then be related to the data obtained from the sample of bankrupts in an attempt to evaluate their repayment capacity.

The size of the monthly contribution made by clients of the counseling service toward the liquidation of their debt varied from 13 to 63 percent of their monthly net income. Both the mean and median for the sample were thirty percent. In Table 12 on the following page, a

¹²Robert Dolphin, Jr., An Analysis of Economic and Personal Factors Leading to Consumer Bankruptcy - Occasional Paper No. 15, Bureau of Business and Economic Research (East Lansing, Michigan: Michigan State University, 1965), p. 95.

breakdown of the sample is presented according to the percentage of monthly income disbursed to creditors in each case.

TABLE 12

MONTHLY CONTRIBUTION TO CREDITORS BY CLIENTS OF THE MISSOULA
GCCS AS A PERCENTAGE OF MONTHLY NET INCOME

Percentage Of Monthly Income Paid To Creditors	Number Of Cases In Each Group	Percentage Of Cases In Each Group
0 - 9	0	0.0
10 - 19	13	13.7
20 - 29	34	35.8
30 - 39	34	35.8
40 - 49	10	10.5
50 and over	4	4.2
Total	<u>95</u>	<u>100.0</u>

The size of the monthly contribution a debtor can make as payment to his creditors is determined by the size of his income in excess of his expenses for necessities. As a result, any factor which can influence either the size of his income or the amount of his expenditures becomes significant. Such things as changes in employment, number of dependents, or the presence of large medical bills are among the more obvious of these factors. For the purposes of this analysis, factors of this type are considered as unknowns because of a lack of information. Therefore, in attempting to relate the data concerning the repayment of creditors by clients of the counseling service to the data from the sample of bankrupts, absolute numerical values cannot be justified. Rather, a range of values must be specified.

The one variable which can be taken into account in specifying this range of percentages is the size of a client's income as stated on the counseling service forms. To test whether or not the size of a client's income has any effect on the amount he can afford to pay to his creditors each month, the cases sampled were arranged in order according to income. The sample was then halved, and the lower and upper halves were compared in terms of the percentage of monthly income paid to creditors. The results are displayed in Table 13.

TABLE 13

THE PERCENTAGE OF INCOME DISBURSED
MONTHLY TO CREDITORS

(A Comparison of the Upper and Lower Halves of the
Counseling Service Cases Sampled, Ordered
According to the Size of the Client's Income)

Monthly Contribution to Creditors as a Percentage of Income	Number of Cases In Each Group		Percentage of Cases In Each Group	
	Lower Half	Upper Half	Lower Half	Upper Half
0 - 4	0	0	0.0	0.0
5 - 9	0	0	0.0	0.0
10 - 14	3	1	6.3	2.1
15 - 19	7	2	14.6	4.3
20 - 24	9	6	18.8	12.8
25 - 29	11	8	22.9	17.0
30 - 34	10	10	20.8	21.3
35 - 39	4	10	8.3	21.3
40 - 44	2	3	4.2	6.4
45 - 49	1	4	2.1	8.5
50 and over	1	3	2.1	6.4
Total	<u>48</u>	<u>47</u>	<u>100.1^a</u>	<u>100.1^a</u>

^aError due to rounding.

Clearly, in the cases sampled the size of a client's income did influence the percentage of that income he was able to pay out to his creditors.

Thus, in order to insure that the percentages used are not overly optimistic, the lower-income half of the cases sampled will be used in specifying the range to be applied to the data derived from the bankruptcy sample. The bankrupts, it must be remembered, did have incomes which were on the average considerably smaller than those of the counseling service's clients. In fact, the average income in the bankruptcy sample is approximately the same as that for the lower-income half of the client sample. Referring again to Table 13, it can be seen that over 80 percent of the individuals in the lower half of the sample contributed between 15 and 35 percent of their monthly incomes to the repayment of their debts. This, therefore, will be the range to be utilized.

There is one other factor to be specified before proceeding, and that is the number of months it is feasible for a repayment program to operate. Over 86 percent of the counseling service programs were designed to liquidate a client's debt in 42 months or less. A program of much greater length, it is felt, has a much greater chance of failure and is discouraged.¹³ For similar reasons, the Bankruptcy Act sets a three-year limit on repayment programs initiated under Chapter XIII. A forty-two month time constraint, therefore, is reasonable in judging whether or not a repayment program is likely to succeed.

It is now possible to attempt an answer to the question posed earlier. How many of the bankrupts sampled actually had the capacity to

¹³ Earl Slack (counselor), an interview held at the office of the Consumer Credit Counseling Service of Missoula, Missoula, Montana, October, 1971.

repay their debts? If a bankrupt's average monthly income is multiplied by a percentage figure representing that portion of his income he is able to set aside each month for the repayment of his creditors, and the resulting amount is divided into his total debt, the number of months it would take to repay his debt can be calculated. This has been done three times for each of the cases sampled: once assuming 15 percent of the bankrupt's income is applied to the repayment of his debt, a second time assuming 25 percent of his income is set aside for this purpose, and a third time assuming 35 percent is set aside. The results of these computations are summarized in Table 14. Subject to the 42-month time constraint regarding the duration of a repayment program (indicated by the horizontal double line dividing the table), the table shows that anywhere from about 7 percent to nearly 48 percent of the bankrupts sampled did have the capacity to repay all of their debts. The 7 percent figure represents a conservative estimate. The 48 percent figure, on the other hand, is rather optimistic. The center column indicates that if a midpoint figure of 25 percent is applied, about a third of the bankrupts could have eliminated their debts over a period of three and a half years or less.

These results are much like those obtained in a number of other studies. Robert Dolphin found in a study of bankrupts in the Flint, Michigan area that, allowing for an adequate standard of living in one case and a comfortable level in another case, between 28 and 49 percent of the bankrupts could have repaid their debts in full within three years.¹⁴ And similarly, in a study of personal bankrupts in Seattle, Washington, John Brosky estimates that between 18 and 56 percent of the

¹⁴Dolphin, Economic and Personal Factors Leading to Bankruptcy, p. 107.

TABLE 14

NUMBER OF MONTHS REQUIRED TO REPAY THE TOTAL DEBT OF EACH OF THE MISSOULA BANKRUPTS SAMPLED
IF A SPECIFIED PERCENTAGE OF THEIR AVERAGE MONTHLY INCOME IS APPLIED TO SUCH REPAYMENT

Number of Months Required to Repay All Debts if Fixed Dollar Amount Applied Each Month	Assume 15% of Average Monthly Income Applied Toward Plan		Assume 25% of Average Monthly Income Applied Toward Plan		Assume 35% of Average Monthly Income Applied Toward Plan	
	Number of Bankrupts In Each Category	Percent of Bankrupts In Each Category	Number of Bankrupts In Each Category	Percent of Bankrupts In Each Category	Number of Bankrupts In Each Category	Percent of Bankrupts In Each Category
0 - 6	0	0.0	0	0.0	0	0.0
7 - 12	0	0.0	0	0.0	2	3.3
13 - 18	0	0.0	3	4.9	2	3.3
19 - 24	0	0.0	1	1.6	9	14.8
25 - 30	3	4.9	5	8.2	7	11.5
31 - 36	0	0.0	6	10.0	2	3.3
37 - 42	<u>1</u>	<u>1.6</u>	<u>5</u>	<u>8.2</u>	<u>7</u>	<u>11.5</u>
Subtotal	4	6.5	20	32.9	29	47.7
43 - 48	3	4.9	2	3.3	6	10.0
49 - 54	3	4.9	3	4.9	2	3.3
55 - 60	5	8.2	5	8.2	2	3.3
61 - 66	1	1.6	4	6.6	0	0.0
67 - 72	4	6.6	1	1.6	1	1.6
73 and over	<u>41</u>	<u>67.2</u>	<u>26</u>	<u>42.6</u>	<u>21</u>	<u>34.4</u>
Total	61	99.9*	61	100.1*	61	100.3*

^aError due to rounding.

Note: The double line which crosses the table horizontally separates the repayment programs of feasible duration from those which are not likely to be feasible because of their length.

cases he sampled had the capacity to solve their debt problems through means other than bankruptcy.¹⁵ There are undoubtedly differences between the methodologies employed in these studies and that used in this paper. Also, there may be some characteristics of the populations sampled in these studies which differ substantially from the characteristics of bankrupts in Missoula County. But in general, the findings of these studies do reinforce the results of this analysis.

The primary objective of this chapter has been to evaluate the potential economic impact of the Missoula credit counseling service. It has been shown that a considerable percentage of the bankrupts sampled had the capacity for repaying their creditors. Of course having the capacity for repayment, and having the desire to do so and (or) the knowledge of how to attempt it are not the same thing. But it can be estimated from the findings above that up to a third of those filing bankruptcy in Missoula during this period would have been strong prospects for a repayment program supervised by the counseling service which would have enabled them to satisfy all of their debt obligations. And for another 15 percent of these cases, such a repayment program may have been worthy of consideration.

Thus, although the counseling service has been judged to have had an important impact on Missoula's economy, it appears that the potential does exist for its programs to have a much greater impact. Furthermore, it must be kept in mind that many of the bankrupts sampled in this study who lacked the capacity to pay their creditors at the time they filed their petitions may have been able to avoid that alternative had they

¹⁵John J. Brosky, A Study of Personal Bankruptcy in the Seattle Metropolitan Area (Seattle, Washington: The Retail Creditors Association of Seattle, 1965), p. 51.

been given proper guidance while their debt problems were less severe. The actual potential impact of the counseling service may therefore be much larger than the estimates arising out of the analysis in this chapter would imply.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

There are three fundamental conclusions that can be made on the basis of this study. The first is that from a strictly economic point of view, bankruptcy does not afford an adequate solution in many cases to the problem of personal over-indebtedness in the Missoula area. The losses to Missoula creditors resulting from bankruptcy have been shown to be substantial. And in a considerable number of cases an individual turning to bankruptcy is not limited to this course of action as the sole alternative to his financial problems.

The second conclusion is that the Consumer Credit Counseling Service of Missoula has had an important impact on the area's economy since its operations began in 1966. It has been a major factor in reducing bankruptcies in Missoula County which in turn has meant a savings to creditors in the community. In addition, its programs provide a mechanism by which clients of the service can make steady monthly payments toward the liquidation of their debts.

The third conclusion is that although its impact has been important during the past six years, the potential exists for the counseling service to have a much greater impact on Missoula's economy. It has been estimated that up to a third of the individuals filing for bankruptcy in Missoula County might have had a good chance of success if placed on a repayment program supervised by the counseling service. In another fifteen percent of the cases, the debtor might have had some chance of

success with such a program. Also, it has been pointed out that these figures likely understate the true potential impact of the counseling service, because many of the bankrupts who do not have the ability to repay their debts at the time they file for bankruptcy might have been able to do so had they received special guidance at an earlier stage.

Any recommendations to be made on the basis of this study stem from the third conclusion. There can be little doubt that the counseling service has been of great benefit to the health of Missoula's economy, not only in generating funds for creditors, but in helping the individual with debt problems become a more stable economic unit within the community. And the fact that it has the potential for being of even greater benefit to the community poses a real challenge to proponents of the counseling service.

To deal more effectively with the immediate problem of reducing the number of bankruptcies in the county, a much greater effort to inform the public of the programs offered by the counseling service is necessary. There are undoubtedly many who are in serious need of counseling regarding their debt problems, but who have no knowledge of either the availability of the counseling service or the type of assistance it can provide. However, it is also conceivable that some individuals have failed to avail themselves of the counseling service simply because they lack the desire to attempt the repayment of their debts. This is a problem which cannot be dealt with effectively on the local level. To deny a retreat into bankruptcy to those who have the ability to repay their debts but lack the desire to do so would require an amendment to the Bankruptcy Act. This implies that efforts to encourage debtors of this type to participate in a repayment program administered by a consumer

credit counseling service should be focused primarily at the national level.

Although reducing the number of bankruptcies in the county is important, bankruptcy itself is only the most visible aspect of the much more widespread problem of excessive debt. In the long run, the counseling service should provide a full range of services, from educational and counseling programs aimed at preventing personal debt problems, to remedial programs to actually assist a debtor in repaying his creditors. The counseling service cannot hope to carry all of this burden alone. It should attempt to stimulate schools, labor groups, and other concerned organizations to help in developing and operating this wide range of programs.

A single, broadly stated recommendation can therefore be made on the basis of this study: the operations of the Consumer Credit Counseling Service of Missoula should be expanded to enable it to fulfill its potentially greater role in the Missoula community. Its efforts to provide remedial and rehabilitative programs to help families with serious debt problems should be intensified, and new educational and counseling programs aimed at preventing such problems should be developed. This recommendation is offered recognizing the fact that the mere suggestion of expanding the counseling service brings forth a whole new set of questions which have yet to be examined. These involve such factors as additional personnel, new promotional schemes, and perhaps most importantly the need for increased financial support. These questions must be dealt with if the above recommendation is to be acted upon, but their specific consideration is beyond the scope of this study. They would, however, provide interesting subject matter for further research concerning the counseling service.

APPENDIX I

The design of the random sample of bankrupts from Missoula County was dictated to a large extent by the record-keeping procedures of the clerk of court. The actual case files were only available for the years 1968 through 1970. The files are indexed by year according to the order in which they are filed. The files are not segregated by county. An inspection of the court docket sheets was necessary to determine which of the cases filed during that period were filed by residents of Missoula County. Each of these file references was then numbered consecutively and a table of random numbers was utilized to obtain a random sample. A twenty-five percent sample was originally taken from this population. But subsequently due to some definitional changes, some cases were eliminated from the population. The result has been that the sample of sixty-one cases now represents a somewhat greater proportion of the population than the intended twenty-five percent.

The data obtained in the sample were taken from the petitioners' "Statement of Affairs" which is attached to the bankruptcy petition in each file. If a bankrupt was married and the income and (or) liability figures for his wife were stated separately, these figures were combined. Also, if a man and his wife both file for bankruptcy each is given a case number. Where this occurred in the cases sampled, the two cases were treated as one to avoid the double counting of incomes and liabilities. Finally, it should be noted that in compiling the total debt obligations of the petitioner in each case, any mortgages

on either a house or mobile home were excluded. This was to insure that the debt figures derived from this sample would be comparable to those from a sample of the program files of the counseling service which was also planned. The counselor treats any house or trailer payments as a fixed living expense for his clients.

APPENDIX II

The design for sampling the program files of the Consumer Credit Counseling Service of Missoula was determined largely by the availability of records and the way in which they are maintained. Since it was difficult to obtain the desired information from programs activated prior to the recent change in counselors, the sample was limited to programs operating at the time the sample was to be taken. These numbered ninety-five. Because the method of filing these programs enabled them to be sampled rather easily, the entire population was studied.

The forms prepared by the counselor to summarize the financial affairs of each client were used to obtain the needed data. In many cases, the original schedules had been amended to reflect changes in the client's income or the amount of his debt. But these amendments were not recorded. Figures representative of the client's financial condition at the time he made the decision to undertake a repayment program were necessary so as not to detract from the comparability of the sample with the sample of Missoula bankrupts.

As with the bankrupts, if a client of the counseling service was married, both the income and debts of his wife, if stated separately, were combined with his own. Also, the amount of a client's debt as stated on these forms does not include a mortgage on a house or mobile home. These payments are treated as fixed living expenses.

SELECTED BIBLIOGRAPHY

Unpublished Sources

- First Montana District of the United States Federal District Court.
Sampling of Case Files of Western Montana Bankrupts, Butte,
Montana, October, 1971.
- Heisel, Ewing H. Personal Interview Held at the Western Montana National
Bank, Missoula, Montana, October, 1971.
- Slack, Earl (Counselor). Personal Interview Held at Office of Consumer
Credit Counseling Service of Missoula, Missoula, Montana, October
1971.
- The Consumer Credit Counseling Service of Missoula. Operational Records
and Sampling of Case Files, Missoula, Montana, September, 1971.

Published Sources

A. Books:

- Brosky, John J. A Study of Personal Bankruptcy in the Seattle Metropolitan Area. Seattle, Washington: The Retail Creditors Association of Seattle, 1965.
- Dolphin, Robert, Jr. An Analysis of Economic and Personal Factors Leading to Consumer Bankruptcy - Occasional Paper No. 15. East Lansing, Michigan: Bureau of Business and Economic Research, Michigan State University, 1965.
- Family Service Association of America. Family Credit Counseling - An Emerging Community Service. Summary Report, 1970.
- Herrmann, Robert O. Causal Factors in Personal Bankruptcy: A Case Study. Davis, California: Institute of Government Affairs, University of California, December, 1965.
- Sullivan, George. The Boom In Going Bust. New York: The Macmillan Company, 1968.

B. Journals and Periodicals:

- "A Longer Look - Bankruptcy on Rise," Credit and Financial Management, May, 1967, pp. 14-15.

- Blake, William Henry. "A Report on the Study of Credit Counseling as a Community Service." The Credit World, November, 1967, pp. 7-8.
- Bogges, William P. "Screen-Test Your Credit Risks," Harvard Business Review, November, 1967, pp. 113-121.
- Coha, Stephen P. "Consumer Counseling." Bankers Monthly, January 15, 1967, pp. 37-42.
- "Do Creditor's Committees Work?" Credit and Financial Management, June, 1967, p. 35.
- Dolphin, Robert, Jr. "Characteristics of the Financially Distressed." Banking, January, 1967, pp. 55-56.
- Gilson, Gail. "Bankruptcy - How It All Began." Credit and Financial Management, March, 1967, pp. 29-32.
- Gross, Howard I.. "The Bankruptcy Act - Used or Abused?" Credit and Financial Management, August, 1964, pp. 18-19.
- Harris, Duane G. "Prosperity and Personal Bankruptcy." Federal Reserve Bank of Philadelphia: Business Review, August, 1971, pp. 3-9.
- "Loose Credit: Booster to Bankruptcy." Credit and Financial Management, March, 1965, pp. 10-11.
- Matsch, Richard P. "Bankruptcy: A Study In Functional Obsolescence." Credit and Financial Management, April, 1970, pp. 13-17.
- May, David L. "What A Credit Executive Should Know About Bankruptcy." Credit and Financial Management, February, 1967, pp. 28-30.
- Miller, Walter R., Jr. "Challenge of Changes in Consumer Credit." Bankers Monthly, June 15, 1968, pp. 17-20.
- Schirmer, Alfred A. "Credit Counseling Gives Credit the Edge." Credit and Financial Management, December, 1966, pp. 14-17.
- G. Other:
- Administrative Office of the United States Courts. Tables of Bankruptcy Statistics. Washington, D.C., 1958-1969.